

CITY OF OZAWKIE, KANSAS

REGULATORY BASIS FINANCIAL STATEMENTS
For the year ended December 31, 2015

And

INDEPENDENT AUDITOR'S REPORT

...**KL**...

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CITY OF OZAWKIE, KANSAS

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Karlin & Long, LLC
Certified Public Accountants

The Honorable Mayor and City Council
524 Kiowa
Ozawkie, Kansas 66070

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Ozawkie, Kansas as of and for the year ended December 31, 2015, and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the City of Ozawkie to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Ozawkie as of December 31, 2015, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting


In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of Ozawkie, Kansas as of December 31, 2015, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, and schedule of receipts and expenditures – nonbudgeted funds (Schedules 1, 2 and 3 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. The accompany schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S Office of Management and Budget Circular A-133, “Audits of States and Local Governments, and Non-Profit Organizations” and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with "Government Auditing Standards", we have also issued our report dated May 6, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control of financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Audit Standards" in considering City of Ozawkie, Kansas' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Karlin & Long, LLC". The signature is written in a cursive, flowing style.

Karlin & Long, LLC
Certified Public Accountants

Lawrence, KS
May 6, 2016

CITY OF OZAWKIE, KANSAS
Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2015

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Funds							
General	\$ 56,623	0	\$ 134,208	\$ 105,451	\$ 85,380	\$ 8,620	\$ 94,000
Special Purpose Funds							
Special highway	64,951	0	16,614	9,880	71,685	241	71,926
Special Parks and Recreation	1,424	0	3,000	565	3,859	316	4,175
Trash	4,996	0	37,178	35,093	7,081	2,739	9,820
Capital improvement reserve	5,000	0	0	0	5,000	0	5,000
Equipment Reserve	9,909	0	0	9,909	0	0	0
Water utility reserve	152,889	0	5,000	56,376	101,513	0	101,513
Sewer utility reserve	4,032	0	0	0	4,032	0	4,032
Business Funds:							
Water Utility	81,508	0	67,934	63,379	86,063	4,596	90,659
Sewer Utility	72,962	0	91,191	51,651	112,502	3,134	115,636
Capital Project							
Wastewater project	100	0	791,899	791,999	0	244,816	244,816
Total Reporting Entity	\$ 454,394	0	\$ 1,147,024	\$ 1,124,303	\$ 477,115	\$ 264,462	\$ 741,577
Composition of Cash							
					Checking Accounts		\$ 679,681
					Savings Accounts		36,758
					Certificates of Deposit		25,138
					Total Reporting Entity		\$ 741,577

The notes to the financial statements are an integral part of this statement.

CITY OF OZAWKIE, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Ozawkie is a municipal corporation governed by an elected six member council. The City as an entity has been defined to include, on a combined basis, (a) the City of Ozawkie, Kansas (b) organizations for which the City of Ozawkie, Kansas is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the City of Ozawkie, Kansas are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City for the year 2015:

Governmental Funds

General Fund - The chief operating fund. Used to account for the resources except those required to be accounted for in another fund.

Special Purpose Funds - Used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long term debt) that are intended for specified purposes.

Business Funds – funds financed in whole or in part by fees charged to users for goods or services (i.e. enterprise and internal service fund ect.)

Capital Project Funds – used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

CITY OF OZAWKIE, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

Reimbursed Expenses

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

Budgetary Information

Kansas Statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

CITY OF OZAWKIE, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Budgetary Information (continued)

1. Preparation of the budget for the succeeding calendar year on or before August 1st
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in regulatory receipts other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. No budget amendments were noted for the current year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which regulatory receipts are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances with disbursements being adjusted for the prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

CITY OF OZAWKIE, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Budgetary Information (Continued)

A legal operating budget is not required for capital projects funds, trust funds and the following special purpose funds: 1) Wastewater Grant, 2) Capital Improvement Reserve, 3) Equipment Reserve, 4) Water Utility Reserve, and 5) Sewer Utility Reserve.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as expenditures.

Use of Estimates

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the government. The statute requires banks eligible to hold the government's funds have a main or branch bank in the county in which the government is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The government has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the government's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The government has no investment policy that would further limit its investment choices.

CITY OF OZAWKIE, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (Continued)

Concentration of Credit Risk

State statutes place no limit on the amount the government may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. State statutes require the government's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were not legally secured during 2015.

At December 31, 2015, the government's carrying amount of deposits was \$741,577 and the bank balance was \$782,348. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$494,783 was covered by federal depository insurance and the balance was collateralized with securities held by the pledging financial institutions' agents in the government's name.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 – Defined Benefit Pension Plan

Plan Description – The City of Ozawkie, Kansas participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 S. Kansas; Topeka, KS 66603) or by calling 1-888-275-5737.

CITY OF OZAWKIE, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Defined Benefit Pension Plan (continued)

Contributions – K.S.A. 74-4919 and K.S.A. 74-4921 establishes the KPERS member-employee contribution rates depending on whether the employee is KPERS 1, KPERS2, or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2, and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to provisions Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2, and KPERS 3 be determined based on results of each annual actuarial valuation. Kansas sets a limitation on annual increases in the employer contributions rates. The actuarially determined employer contribution rate (not including the .085% contribution rate for Death and Disability Program) and the statutory contribution rate was 9.48% for the fiscal year ended December 31, 2015. Contributions to the pension plan from the City of Ozawkie, Kansas were \$-0- for the year ended December 31, 2015.

Net Pension Liability

At December 31, 2015, the City of Ozawkie, Kansas' proportionate share of the collective net pension liability reported by KPERS was \$-0- the net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined was an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2015. The City of Ozawkie, Kansas' proportion of the net pension liability was based on the ratio of the City of Ozawkie, Kansas' contributions to KPERS, relative to the total employer and non employer contributions to the Local subgroup within KPERS. Since KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in these financial statements.

The complete actual valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publically available on the website www.KPERS.org or can be obtained as described above.

CITY OF OZAWKIE, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Risk Management

The City is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the City carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 5 – Stewardship, Compliance and Accountability

We noted a violation of K.S.A. 9-1402, the depository security law.

NOTE 6 – Compensated Absences

Vacation leave shall be earned, beginning with the date of employment under the conditions hereinafter stated. An employee who works fewer than 12 days in any month shall not accrue vacation credit for such month of service; provided that this restriction of 12 days shall not apply if the employee has worked fewer than 12 days due to authorized vacation or sick leave.

No employee shall be permitted to use vacation time for any period spent on unauthorized leave

Full-time employees and part-time employees who are employed to work at least 20 hours or more per week, shall be entitled to sick leave with pay for absences resulting from illness, injuries, accidents, or other physical incapacity, occurring either on or off the job. No employees shall be permitted to use sick leave for any period spent on unauthorized leave.

NOTE 7 – Interfund Transactions

Operating transfers were as follows:

From	To	Statutory Authority	Amount
Water	Reserve Fund	12-825-d	\$ 5,000
Water	Special Parks and Rec Fund	12-825-d	3,000

CITY OF OZAWKIE, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

NOTE 9 – Subsequent Events Review

Subsequent events for management's review have been evaluated through May 6, 2016. The date in the prior sentence is the date the financial statements were available to be issued.

NOTE 10 – Capital Projects

On August 10, 2015 the City entered into an agreement for a \$3,800,000 loan from Kansas Rural Water Association for completion of the sewer improvements upgrades.

	<u>Expenditures To Date</u>	<u>Project Authorization</u>
Sewer Improvements	\$ 679,083	\$ 3,800,000

NOTE 11 – Long Term Debt

The schedule of long term debt and current maturities for the next five years is detailed in the following schedule.

CITY OF OZAWKIE, KANSAS
Statement of Changes in Long-Term Debt
For the Year Ended December 31, 2015

Note 11 - Long Term Debt

Changes in long-term liabilities for the City for the year ended December 31, 2015 were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds					\$	\$	\$	0	0	\$
Capital Leases										
Kansas Department of Health and Environment	2.37%	6/2/14	\$ 848,120	3/1/35	848,120		16,266	(16,266)	831,854	10,050
Total Long Term Debt					\$ 848,120	\$ 0	\$ 16,266	\$ (16,266)	\$ 831,854	\$ 10,050
Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:										
	2016	2017	2018	2019	2020	2021-2025	2026-2030	2031-2035	Totals	
Principal										
General Obligation Bonds	\$								\$	0
Special Assessment Bonds										0
Certificates of Participation										0
Capital Leases	33,174	34,049	34,947	35,869	36,815	199,159	226,842	230,999	831,854	0
Revenue Bonds										0
No-Fund Warrants										0
Temporary Notes										0
Total Principal	33,174	34,049	34,947	35,869	36,815	199,159	226,842	230,999	831,854	
Interest										
General Obligation Bonds										0
Special Assessment Bonds										0
Certificates of Participation										0
Capital Leases	19,519	18,728	17,916	17,083	16,227	67,486	42,445	13,927	213,331	0
Revenue Bonds										0
No-Fund Warrants										0
Temporary Notes										0
Total Interest	19,519	18,728	17,916	17,083	16,227	67,486	42,445	13,927	213,331	
Total Principal and Interest	\$ 52,693	\$ 52,777	\$ 52,863	\$ 52,952	\$ 53,042	\$ 266,645	\$ 269,287	\$ 244,926	\$ 1,045,185	

City of Ozawkie, Kansas
Regulatory-Required
Supplementary Information
For the year ended December 31, 2015

CITY OF OZAWKIE, KANSAS
 Summary of Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2015

Funds	Certified Budget	Adjustments to Comply with Legal Max	Adjustments for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
<u>Governmental Type Funds</u>						
General Funds						
General	\$ 182,950	0	0	\$ 182,950	\$ 105,451	\$ (77,499)
Special Purpose Funds						
Special highway	19,900	0	0	19,900	9,880	(10,020)
Special parks and recreation	840	0	0	840	565	(275)
Trash	38,300	0	0	38,300	35,093	(3,207)
Business Funds						
Water utility	63,830	0	0	63,830	63,379	(451)
Sewer utility	54,613	0	0	54,613	51,651	(2,962)

CITY OF OZAWKIE, KANSAS
GENERAL FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015

	Actual	Budget	Variance- Over (Under)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 67,638	\$ 68,135	\$ (497)
Delinquent tax	179		179
Motor vehicle tax	12,923	12,609	314
RV tax	147	243	(96)
16/20M vehicle tax	37	372	(335)
Franchise fees	22,259	24,900	(2,641)
Sales tax	26,667	26,300	367
Licenses, rent, permits	1,309	880	429
Legal, State claim	1,340		1,340
Interest income	897	490	407
Miscellaneous revenues	812	1,675	(863)
Operating transfers			0
Total Cash Receipts	<u>134,208</u>	<u>135,604</u>	<u>(1,396)</u>
EXPENDITURES			
Personnel services	58,355	61,375	(3,020)
Employee benefit	1,839	1,450	389
Rent/Repairs/Supplies/Office expenses	7,950	17,300	(9,350)
Professional services	10,373	7,800	2,573
Utility/electricity	4,589	6,750	(2,161)
Streets/Sidewalks	1,015	4,525	(3,510)
Insurance	5,474	3,500	1,974
Parks/Community center	2,713	4,500	(1,787)
Auto/Publications/Misc.	4,390	9,100	(4,710)
Trash			0
Capital outlay	8,753	66,650	(57,897)
Operating transfers			0
Adjustment for qualifying budget credits			0
Total Expenditures	<u>105,451</u>	<u>\$ 182,950</u>	<u>\$ (77,499)</u>
Receipts Over (Under) Expenditures	28,757		
Unencumbered Cash, Beginning	56,623		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 85,380</u>		

CITY OF OZAWKIE, KANSAS
SPECIAL HIGHWAY FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Over (Under)</u>
CASH RECEIPTS			
Intergovernmental revenues	\$ 16,614	\$ 16,410	\$ 204
Operating transfers			<u>0</u>
Total Cash Receipts	<u>16,614</u>	<u>16,410</u>	<u>204</u>
EXPENDITURES			
Highways and streets			0
Personnel services			(1,815)
Commodities	3,585	5,400	(1,815)
Contractual	6,295	14,500	(8,205)
Operating transfers			0
Adjustment for qualifying budget credits			<u>0</u>
Total Expenditures	<u>9,880</u>	<u>\$ 19,900</u>	<u>\$ (10,020)</u>
Receipts Over (Under) Expenditures	6,734		
Unencumbered Cash, Beginning	64,951		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 71,685</u>		

CITY OF OZAWKIE, KANSAS
SPECIAL PARKS AND RECREATION FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Over (Under)</u>
CASH RECEIPTS			
Miscellaneous revenues	\$	\$	\$ 0
Operating transfers	<u>3,000</u>	<u>3,000</u>	<u>0</u>
Total Cash Receipts	<u>3,000</u>	<u>3,000</u>	<u>0</u>
EXPENDITURES			
Commodities	565	840	(275)
Capital outlay			0
Operating transfers			0
Adjustment for qualifying budget credits	<u></u>	<u></u>	<u>0</u>
Total Expenditures	<u>565</u>	<u>\$ 840</u>	<u>\$ (275)</u>
Receipts Over (Under) Expenditures	2,435		
Unencumbered Cash, Beginning	1,424		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 3,859</u>		

CITY OF OZAWKIE, KANSAS
 TRASH FUND
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended December 31, 2015

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Over (Under)</u>
CASH RECEIPTS			
Charges for services	\$ 37,178	\$ 37,771	\$ (593)
Operating transfers			0
Total Cash Receipts	<u>37,178</u>	<u>37,771</u>	<u>(593)</u>
EXPENDITURES			
Production			
Commodities	1,522	1,700	(178)
Contractual	33,571	36,600	(3,029)
Operating transfers			0
Adjustment for qualifying budget credits			0
Total Expenditures	<u>35,093</u>	<u>\$ 38,300</u>	<u>\$ (3,207)</u>
Receipts Over (Under) Expenditures	2,085		
Unencumbered Cash, Beginning	4,996		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 7,081</u>		

CITY OF OZAWKIE, KANSAS
WATER UTILITY FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015

	Actual	Budget	Variance- Over (Under)
CASH RECEIPTS			
Charges for services	\$ 46,867	\$ 50,800	\$ (3,933)
Surcharge	18,855	18,827	28
Miscellaneous revenues	2,212	50	2,162
Operating transfers	<u> </u>	<u> </u>	<u>0</u>
Total Cash Receipts	<u>67,934</u>	<u>69,677</u>	<u>(1,743)</u>
EXPENDITURES			
Production			
Personnel services	28,467	25,300	3,167
Commodities	18,683	17,890	793
Contractual	7,362	12,640	(5,278)
Capital outlay	867		867
Operating transfers	8,000	8,000	0
Adjustment for qualifying budget credits	<u> </u>	<u> </u>	<u>0</u>
Total Expenditures	<u>63,379</u>	<u>\$ 63,830</u>	<u>\$ (451)</u>
Receipts Over (Under) Expenditures	4,555		
Unencumbered Cash, Beginning	81,508		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 86,063</u>		

CITY OF OZAWKIE, KANSAS
SEWER UTILITY FUND
Schedule of Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2015

	Actual	Budget	Variance- Over (Under)
CASH RECEIPTS			
Charges for services	\$ 91,091	\$ 83,448	\$ 7,643
Interest income			0
Miscellaneous revenues	100		100
Operating transfers			0
	<u>91,191</u>	<u>83,448</u>	<u>7,743</u>
Total Cash Receipts			
EXPENDITURES			
Production			
Personnel services	8,664	9,130	(466)
Commodities	6,877	7,525	(648)
Contractual	7,972	9,708	(1,736)
Capital outlay	431	250	181
Debt service	27,707	28,000	(293)
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>51,651</u>	<u>\$ 54,613</u>	<u>\$ (2,962)</u>
Total Expenditures			
Receipts Over (Under) Expenditures	39,540		
Unencumbered Cash, Beginning	72,962		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>112,502</u>		

CITY OF OZAWKIE, KANSAS
 ANY NONBUDGETED FUNDS
 Schedule of Receipts and Expenditures
 Regulatory Basis
 For the Year Ended December 31, 2015

	Wastewater Grant	Capital Improvement
CASH RECEIPTS		
Federal grants	\$ 791,899	\$
State aid/grants		
Miscellaneous income		
Operating transfers		
	<u>791,899</u>	<u>0</u>
Total Cash Receipts		
EXPENDITURES		
Operations		
Capital outlay	791,999	
Operating transfers		
Adjustment for qualifying budget credits		
	<u>791,999</u>	<u>0</u>
Total Expenditures		
Receipts Over (Under) Expenditures	(100)	0
Unencumbered Cash, Beginning	100	5,000
Prior Year Cancelled Encumbrances	<u>0</u>	<u>0</u>
Unencumbered Cash, Ending	\$ <u>0</u>	\$ <u>5,000</u>

CITY OF OZAWKIE, KANSAS
 ANY NONBUDGETED FUNDS
 Schedule of Receipts and Expenditures
 Regulatory Basis
 For the Year Ended December 31, 2015

	Equipment Reserve	Water Utility Reserve	Sewer Utility Reserve
CASH RECEIPTS			
Federal grants	\$	\$	\$
State aid/grants			
Miscellaneous revenues			
Operating transfers		5,000	
Total Cash Receipts	0	5,000	0
EXPENDITURES			
Operations			
Capital outlay	9,909	56,376	
Operating transfers			
Adjustment for qualifying budget credits			
Total Expenditures	9,909	56,376	0
Receipts Over (Under) Expenditures	(9,909)	(51,376)	0
Unencumbered Cash, Beginning	9,909	152,889	4,032
Prior Year Cancelled Encumbrances	0	0	0
Unencumbered Cash, Ending	\$ 0	\$ 101,513	\$ 4,032

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Karlin & Long, LLC
Certified Public Accountants

The Honorable Mayor and City Council
524 Kiowa
Ozawkie, Kansas 66070

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited City of Ozawkie, Kansas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Ozawkie, Kansas' major federal programs for the year ended December 31, 2015. City of Ozawkie, Kansas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Ozawkie, Kansas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *Kansas Municipal Audit and Accounting Guide*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Ozawkie, Kansas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Ozawkie, Kansas' compliance.

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Opinion on Each Major Federal Program

In our opinion, City of Ozawkie, Kansas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

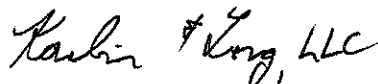
Report on Internal Control Over Compliance

Management of City of Ozawkie, Kansas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Ozawkie, Kansas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Ozawkie, Kansas' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Karlin & Long, LLC
Certified Public Accountants

Lawrence, KS

May 6, 2016

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Karlin & Long, LLC
Certified Public Accountants

The Honorable Mayor and City Council
524 Kiowa
Ozawkie, Kansas 66070

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Kansas Municipal Audit and Accounting Guide*, the financial statements of the City of Ozawkie, Kansas, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise City of Ozawkie, Kansas's basic financial statements, and have issued our report thereon dated May 6, 2016. The auditor's report included an adverse opinion on the GAAP basis due to the preparation of the financial statements on the regulatory basis of accounting in the State of Kansas

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Ozawkie, Kansas's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Ozawkie, Kansas's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Ozawkie, Kansas's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, we identified a deficiency in internal control over financial reporting, as described in the accompanying schedule of findings and questioned costs, as Finding 2015-1, which we consider to be a significant deficiency in internal control over financial reporting.

Compliance and Other Matters

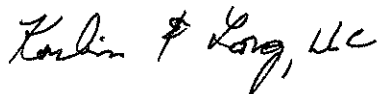
As part of obtaining reasonable assurance about whether the City of Ozawkie, Kansas financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The city's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Karlin & Long LLC
Certified Public Accountants

Lawrence, KS
May 6, 2016

CITY OF OZAWKIE, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended December 31, 2015

A. Summary of Audit Results

1. The auditors' report expresses a qualified opinion on the general purpose financial statements of the City of Ozawkie, Kansas.
2. No reportable conditions relating to the audit of the general purpose financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the general purpose financial statements of the City of Ozawkie, Kansas were disclosed during the audit.
4. The auditors' report on compliance for the major federal award programs for the City of Ozawkie, Kansas expresses an unqualified opinion on all major federal programs.
5. Audit findings relative to the major federal award programs for the City of Ozawkie, Kansas are reported in this schedule.
6. The programs tested as major programs included:
Department of Agriculture
Water and Waste Systems of Rural Communities
CFDA No. 10.760
7. The City of Ozawkie, Kansas was determined to not be a low-risk auditee.
8. The threshold for distinguishing types A and B programs was \$300,000.

B. Findings – Financial Statement Audit
None

C. Findings and Questioned Costs – Major Federal Awards Programs Audit
Department of Agriculture
Water and Waste Systems of Rural Communities
CFDA No. 10.760

No findings of noncompliance or questioned costs were noted.

The accompanying notes to financial statements are an integral part of this statement

The City of Ozawkie
Schedule of Findings and Questioned Costs
Year Ended December 31, 2015

2015-001 Financial Reporting

Criteria – All school districts are required to prepare financial statements in accordance with the basis of accounting adopted. This is a responsibility of the Cities' management. The preparation of financial statements requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including note disclosures (i.e., external financial reporting).

Condition – As in the case with many smaller and medium sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide fund and fund financial statements, including note disclosures, as part of the external financial reporting process. Accordingly, the Cities' ability to prepare financial statements is based, in part, on its external auditors, who cannot by definition be considered a part of the Cities' internal controls financial reporting.

Cause – Management has made the decision that it is in their best interest to outsource the preparation of its annual financial statements to the external auditors rather than incur the time and expense of obtaining the necessary training and expertise require for the district to perform this task internally.

Effect of Condition – As a result of this condition, the City lacks internal controls over the preparation of financial statements, including note disclosures, in accordance with the basis of accounting adopted, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation – we recognize that the district may not have the resources to have an accounting personnel to prepare government – wide and fund financial statements, including note disclosures, in conformity with the adopted basis of accounting. However, we recommend that management continue to increase their knowledge of financial reporting.

View of Responsible Officials – The City has evaluated the benefit of establishing internal controls over the preparation of financial statements, including note disclosures, and determined that it is their best of the City to outsource this task to its external auditors, and to carefully review the draft financial statements, including note disclosures, prior to approving them and accepting responsibility for their content and preservation.

Management's Response (Unaudited) – The City believes that outsourcing the financial statement presentation is acceptable in the circumstances.

The City of Ozawkie
Schedule of Findings and Questioned Costs
Year Ended December 31, 2015

2014-001 Financial Reporting

None

CITY OF OZAWKIE, KANSAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2015

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor Number</u>	<u>Federal Expenditures</u>
Department of Agriculture Water and Waste Systems of Rural Communities	10.760	*	\$ 541,846
Total Federal Assistance			<u>\$ 541,846</u>

* Not Available

CITY OF OZAWKIE, KANSAS
Ozawkie, Kansas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2015

NOTE 1 – Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Ozawkie, Kansas and is presented on the statutory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Statutory Basis of Accounting – The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

City of Ozawkie, Kansas has obtained a waiver from generally accepted accounting principles which allows the municipality to revert to statutory basis of accounting.

Departure from Generally Accepted Accounting Principles – The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenue and mature principal and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles.

.CITY OF OZAWKIE, KANSAS
Ozawkie, Kansas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2015

NOTE 1 – Basis of Accounting (continued)

Departure from Generally Accepted Account Principles (ctd.) - General fixed assets that account for the land, buildings, and equipment owned by the district are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

NOTE 2 – Major Programs

In accordance with OMB Circular A-133, major programs are determined using a risk-based approach. Department of Agriculture Water and Waste Systems for Rural Communities – CFDA # 10.760 determined by the independent auditor to be a major program.

NOTE 3 – Contingencies

The City receives funds under various federal grant programs and such awards are to be expended in accordance with provisions of the various grants. Compliance with the grants is subject to audit by various government agencies which may impose sanctions in the event of non-compliance. Managements believes that they have complied with all aspects of the various grant provisions and the results of adjustments, if any, relating to such audits would not have any material financial impact.